



GCE A level

1083/01

BUSINESS STUDIES

BS3

P.M. FRIDAY, 11 June 2010

2 hours

ADDITIONAL MATERIALS

In addition to this examination paper, you will need:

- a calculator;
- a 12 page answer book.

INSTRUCTIONS TO CANDIDATES

Answer **all** the questions.

Write your answers in the separate answer book provided.

INFORMATION FOR CANDIDATES

The number of marks is given in brackets at the end of each question.

You are reminded that assessment will take into account the quality of written communication that involves extended writing in questions 4 and 5.

You are reminded that questions 4 and 5 are synoptic and so will test understanding of the connections between different elements of the subject.

Study the information provided about *WH Smith plc* and answer the questions that follow.

1 WH SMITH plc

WH Smith plc is one of the oldest retail businesses in the UK. The company, which employs 18 000 people in the UK, has 562 high street stores and 464 shops at airports, train stations, hospitals and motorway service areas. Every year 70% of the UK's population visits a WH Smith store, with an average of 1.2 million shoppers visiting the stores every single day of the year. WH Smith sells 1.5 million magazines a week and in excess of 40 million books a year.

BACKGROUND

The business was originally founded in 1792 by Henry Walton Smith who opened a newspaper stall in Little Grosvenor Street in London. Henry died soon afterwards and the business was carried on by his widow, Anna. In 1816 her two sons, Henry and William Henry, took over the business. William was the more capable businessman and the business became known as WH Smith. When William's son, who was also called William Henry, reached the age of twenty-one he became a partner in the business which then became WH Smith and Son.

In the late 1840s there was a railway boom and WH Smith and Son opened bookstalls in many stations. In the 1850s the business also became the main distributor of newspapers in the country.



WH Smith and Son continued to grow throughout the nineteenth century. Then at the beginning of the twentieth century, because the business was unwilling to pay high rents for its bookstalls in railway stations, it opened 150 shops in high streets around the country near to railway stations.

Throughout the period up until the Second World War, the business expanded both through organic growth and the acquisition of other businesses. In 1929 the business became a private limited company under the control of the Smith family. In 1988 it became a public limited company – WH Smith plc. The last member of the family to be on the board of the company retired in 1996.

RECENT DEVELOPMENTS

In the post-war period the business expanded in different directions. At various times, it owned Book Club Associates, an office supplies business, the Our Price music shops, a travel agency business, Do-It-All the DIY chain and Waterstones bookshops. However, in 1996/7 the business
30 undertook a major strategic review and it was decided that it should concentrate on the core business of retailing books and magazines. It then began the process of selling off all of its diversified businesses, starting with the office supplies business and Do-It-All.

The proceeds of these sales were used, amongst other things, to buy the retail business of John Menzies, which had been its main rival on the high street.

35 In 2007 WH Smith plc announced its intention to open Post Offices in 71 high street stores and in the same year opened franchise units in 85 motorway service areas.

In 2008 it opened several new outlets including nine at Heathrow airport and four at St Pancras International railway station. The company also came to a franchise agreement with RoadChef to open Travel units in all 29 RoadChef motorway service locations. WH Smith plc also
40 acquired 23 retail units in 11 airports from Alpha Retail UK. In many motorway locations the company had a monopoly of retail sales. Also in 2008 a further 16 high street stores were opened.



KATE SWANN

Kate Swann was appointed as Group Chief Executive in 2003. The following article from The
45 Times describes her as a “business big shot” and praises the work that she has done for the company:

“It speaks volumes for the work done by Kate Swann in turning around WH Smith that when she became Chief Executive five years ago, the company was being spoken of in similar terms to Woolworths.

50 Comments such as “You wouldn’t invent it if you were starting out today” and “What is it actually for, these days?” were typical among analysts, as they were with Woolies. Indeed, many thought that WH Smith plc was beyond help and argued that the supermarkets were eating away at sales.

- Ms Swann has defied the critics, achieving an impressive turnaround. The company's newspaper and magazine distribution division was sold off as a separate entity and new outlets were opened at airports and railway stations - so much so that sales by WH Smith plc's travel units may soon overtake those of its traditional high street stores. Lower-margin lines, such as CDs and DVDs, have been cleared from the shelves to make way for higher-margin items, such as stationery.
- 60 Many will now wonder where Ms Swann goes from here. A vastly experienced high street operator, she did a degree in business management at Bradford University before joining Tesco as a graduate trainee and going on to work in marketing for Homepride Foods, Coca-Cola, for which she had the brainwave of putting the fizzy drink in re-sealable plastic bottles, Dixons and Currys. In 1999 she became managing director of Homebase, then owned by Sainsbury's, but
- 65 left a year later to join Argos.

The mother-of-two is a tough operator, unafraid of speaking her mind. When WH Smith plc was criticised by David Cameron, for selling half-price chocolate oranges by its tills, she hit back, saying: "Our customers determine our range, not him."

Adapted from The Times, 27 January 2009

WH SMITH plc's FINANCIAL PERFORMANCE

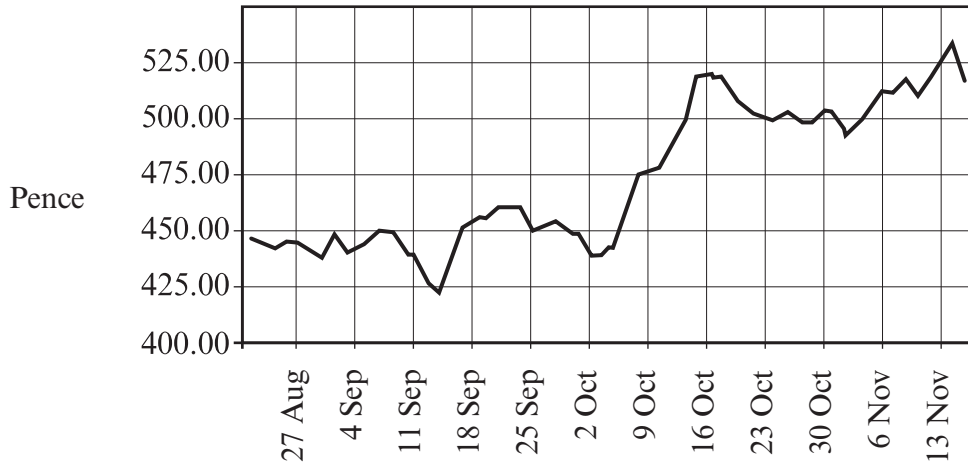
Table 1 - From the Profit and Loss Account for the year ending 31 August

| | 2008 (£m) | 2007 (£m) |
|-------------------|--------------|--------------|
| Sales Revenue | 1 352 | 1 299 |
| Net Profit | 76 | 77 |

Table 2 - From the Balance Sheet as at 31 August

| | 2008 (£m) | 2007 (£m) |
|--|--------------|--------------|
| Fixed Assets | 247 | 231 |
| Current Assets | | |
| Stock | 147 | 141 |
| Debtors | 70 | 59 |
| Cash and Bank | 24 | 86 |
| Total Current Assets | 241 | 286 |
| Current Liabilities | 303 | 261 |
| Net Current Liabilities/Assets | (62) | 25 |
| Total Assets less Current Liabilities | 185 | 256 |
| Long-term Liabilities | 24 | 29 |
| Shareholders' Funds | 161 | 227 |
| Capital Employed | 185 | 256 |

WH Smith plc's share price 27 August 2009 to 13 November 2009



70 MISSION STATEMENT AND VALUES

The company defines its mission as follows: “Our business goal is to rebuild our position as Britain’s most popular stationer, bookseller and newsagent. We strive to be an outward-facing, customer-focused, store-responsive organisation that delivers on our promises.”

In order to achieve this goal, the company has identified four key values:

- 75 • *Customer Focus*: “We will keep the customer at the heart of all that we do”
- *Drive For Results*: “We will act tirelessly to deliver ambitious and competitive results”
- *Accountability*: “We take personal responsibility and deliver what we say we will”
- *Value Our People*: “Our people are respected and valued in an honest, open environment”.

CUSTOMER FOCUS

80 “We take our responsibility for the products we sell seriously. We are committed to listening to our customers and acting responsibly in their interests. Customers often have strongly differing views about the products we sell, so we aim to strike the right balance to meet the needs of all our customers. We aim to offer our customers choice, whilst also respecting customer views and protecting the interests of vulnerable groups, particularly children.

85 This year, we agreed a formal Marketing Code of Practice, which sets out the standards we will follow in all aspects of promotional activity, marketing and advertising.”

ETHICAL TRADING

90 The company has been assessing labour standards in its Asian suppliers for several years. In 2008 it appointed a specialist team to build closer relationships with its suppliers, giving it greater visibility of the risks and increasing its capacity to influence improvement. In 2008 the team completed 126 supplier factory audits, most of which were in China. After each audit, the company agrees necessary improvements with the factory management and a timescale for implementing these changes.

95 WH Smith plc offers a wide range of wood and paper products that come from forests located all over the world. It is its ultimate objective that all virgin (i.e. non-recycled) material used in its products be made from known, legal, well-managed and credibly certified forests. The company will continue to develop its range of recycled products.

Adapted from www.whsmithplc.co.uk

WH SMITH AND PENGUIN TRAVEL GUIDES

100 From June 2008, WH Smith plc will sell only foreign travel guides from Penguin Books (whose publications include the Rough Guides) at its 450 airport, railway station and motorway shops. According to Steve Keenan, writing in *The Times*, “that’s fine if that is exactly what you want but it isn’t if you want the opportunity to buy a guide from a dozen or more other travel publishers or if you want a guide related to the places Penguin doesn’t cover.” Keenan states that “inevitably, it is money and protectionism talking”. He quotes figures that show that in the 105 first four months of 2009 Penguin’s share of the entire travel guide market fell, with the Rough Guides reporting a drop in sales of 30 per cent.



Keenan goes on to say that “W H Smith plc is renowned for its tough negotiations when it comes to purchasing magazines from suppliers. And with travel guide sales also falling, it makes economic sense for it to make an arrangement with Penguin, one of the biggest publishers, 110 which needs help, but will also give them a good deal.” According to *The Bookseller* magazine, the terms of the deal include a 72 per cent discount on the cover price, with added cash up front.

Penguin has not commented on the decision, but a spokesperson from WH Smith plc has said that trials had indicated that the move would make travel-guide shopping “easier for the 115 customer”, as travellers were “extremely time-pressed”.

Adapted from Times Online, 8 June, 2009

1. Explain the factors that have contributed to the survival of WH Smith plc since 1996. [8]
2. Assess the importance to WH Smith plc of its mission statement. (Lines 70-74) [10]
3. Analyse and evaluate the financial performance of WH Smith plc. [14]
4. With reference to Porter's Five Forces Framework and the information given in the case study, comment on the present situation of WH Smith plc. [12]
5. Discuss the view that the policies adopted by WH Smith plc since 2003 have been of benefit to all of its stakeholders. [16]

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